

**ANNUAL BUDGET OF**

**MOQHAKA LOCAL**

**MUNICIPALITY**

**2014/15 TO 2016/17**

**MEDIUM TERM REVENUE AND**

**EXPENDITURE FORECASTS**

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# Part 1 – Annual Budget

## 1.1 Council Resolutions

On 31 March 2014 the Council of Moqhaka Local Municipality met in the Council Chambers of Moqhaka Local Municipality for the mayor to table the annual budget of the municipality for the financial year 2014/15. The Council adopted the following resolutions:

1. The Council of Moqhaka Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
  - 1.1 The annual budget of the municipality for the financial year 2014/15 and the multi-year and single-year capital appropriations as set out in the following tables:
    - 1.1.1 Budgeted Financial Performance (revenue and expenditure by standard classification)
    - 1.1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote);
    - 1.1.3 Budgeted Financial Performance (revenue by source and expenditure by type); and
    - 1.1.4 Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source.
  - 1.2 The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:
    - 1.2.1. Budgeted Financial Position;
    - 1.2.2. Budgeted Cash Flows as contained;
2. The Council of Moqhaka Local Municipality, acting in terms of section 16 of the Local Government: Municipal Financial Management Act (Act 56 of 2003) tables the budget for the 2014/15 MTREF.

## 1.2 Executive Summary

National Treasury's MFMA Circular No.70 and 72 were used to guide the compilation of the 2014/15 MTREF.

The main challenges experienced during the compilation of the 2014/15 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be a point where services will no-longer be affordable;
- Wage increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies;

- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2014/15 MTREF:

- The 2013/14 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2014/15 annual budget;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2014/15 Medium-term Revenue and Expenditure Framework:

**Table 1 Consolidated Overview of the 2014/15 MTREF**

<b>R thousand</b>	<b>Adjustments Budget 2013/14</b>	<b>Budget Year 2014/15</b>	<b>Budget Year +1 2015/16</b>	<b>Budget Year +2 2016/17</b>
Total Operating Revenue	590 462	619 603	656 160	692 248
Total Operating Expenditure	580 276	606 095	641 855	677 157
(Surplus)/Deficit for the year	(10 186)	(13 508)	(14 305)	(15 091)
<b>Total Capital Expenditure</b>	<b>112 954</b>	<b>101 398</b>	<b>83 706</b>	<b>95 159</b>

Total operating revenue has grown by 4.7% for the 2014/15 financial year when compared to the 2013/14 Adjustments Budget. For the two outer years, operational revenue will increase by 5.9% and 5.5%.

Total operating expenditure for the 2014/15 financial year has been appropriated at R606 million and translates into a budgeted surplus of R13.5 million. When compared to the 2013/14 Adjustments Budget, operational expenditure has grown by 4.3% in the 2014/15 budget and by 5.9% and 5.5% for each of the respective outer years of the MTREF. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R101.45 million for 2013/14 is a R10 million decrease from 2013/14 Adjustment Budget. A substantial portion of the capital budget will be funded from grant funding over MTREF with gazetted grants of R91.4 million as per the DORA allocation for 2014/15.

### 1.3 Operating Revenue Framework

For Moqhaka Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Efficient revenue management, which aims to ensure a 80% annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The following table is a summary of the 2014/15 MTREF (classified by main revenue source):

**Table 2 Summary and Percentage growth of revenue classified by main revenue source**

Revenue types		2014/15 MTREF		
R thousand	Adjustment Budget 2013/14	Budget 2014/15	Budget Year 2015/16	Budget Year 2016/17
Property rates	48 524	51 193	54 213	57 195
Service Charges:Electricity	233 226	250 158	265 067	279 646
Service Charges: Water	82 219	87 317	92 469	97 554
Service Charges: Sanitation	23 052	24 481	25 925	27 351
Service Charges: Refuse	13 061	17 502	18 535	19 554
Rental of Facilities	5 277	2 844	3 012	3 177
Interest : External Investments	500	510	540	570
Interest: Outstanding Debtors	5 000	5 000	5 295	5 586
Fines	854	907	961	1 013
Transfers Recognised operational	170 462	171 728	181 860	191 862
Other Revenue	8 287	7 964	8 434	8 898
<b>Total Revenue (Excluding capital grants)</b>	<b>590 462</b>	<b>619 604</b>	<b>656 311</b>	<b>692 408</b>

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2013/14 financial year, revenue from rates and services charges totalled R400 million. This increases to R431 million, R456 million and R481 million in the respective financial years of the MTREF.

Other revenue consists of various items such as income received from building plan fees, connection fees, and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers totals R170 million in the 2013/14 financial year and steadily increases to R171.7 million by 2014/15.

**Table 3 Operating Transfers and Grant Receipts**

FS201 Moqhaka - Supporting Table SA18 Transfers and grant receipts

Description	2010/11	2011/12	2012/13	Current Year 2013/14		2014/15 MTREF		
R thousand	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15	Budget Year 2015/16	Budget Year 2016/17
<b>RECEIPTS:</b>								
<u>Operating Transfers and Grants</u>								
National Government:	137 739	145 647	166 803	170 462	170 462	171 023	172 436	168 362
Local Government Equitable Share	135 789	142 173	163 244	164 486	164 486	167 294	169 819	165 644
Municipal Systems Improvement	750	790	800	890	890	934	967	1 018
Finance Management	1 200	1 450	1 500	1 550	1 550	1 600	1 650	1 700
EPWP Incentive		1 234	1 259	1 000	1 000	1 195		
LG Seta				2 536	2 536			
Provincial Government:		-	-	-	-	-	-	-
LG Seta								
District Municipality:		-	-	-	-	-	-	-
Fezile Dabi District Municipality								
Other grant providers:		-	-	-	-	-	-	-
[insert description]								
<b>Total Operating Transfers and Grants</b>	<b>137 739</b>	<b>145 647</b>	<b>166 803</b>	<b>170 462</b>	<b>170 462</b>	<b>171 023</b>	<b>172 436</b>	<b>168 362</b>

**Table 4: Capital Grants**
Capital Transfers and Grants

Description	2011/12	2012/13	Current Year 2013/14		2014/15 MTREF		
R thousand	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15	Budget Year 2015/16	Budget Year 2016/17
Human Settlement					5 200		
EPWP					1 195		
MIG		46 896	44 524		38 123	39 250	40 903
RBIG		8 000	15 000		15 000	20 000	30 000
DoE		2 000	36 000		31 880	23 456	24 256
<b>Total Capital Grants</b>		<b>56 896</b>	<b>95 524</b>		<b>91 398</b>	<b>83 706</b>	<b>95 159</b>

## 1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2013/14 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2013/14 budget and MTREF (classified per main type of operating expenditure):

**Table 4 Summary of operating expenditure by standard classification item**

### OPERATING EXPENSES

Description R thousand	Adjustment Budget 2013/14	Budget Year 2014/15	Budget Year 2015/16	Budget Year 2016/17
Employee Related Cost	163 016	208 682	220 994	233 149
Salaries Vacancies	6 500	7 020	7 434	7 843
Remuneration of Councillors	16 036	17 412	18 440	19 454
Bulk Purchases	176 610	190 685	201 935	213 042
Contracted Services	11 733	12 188	12 907	13 617
Repairs and Maintenance	33 887	40 277	42 654	45 000
Depreciation	28 893	24 000	25 416	26 814
Contribution to bad debts	41 000	13 000	13 767	14 524
General Expenses	102 601	92 831	98 308	103 715
<b>Total Expenditure</b>	<b>580 276</b>	<b>606 095</b>	<b>641 855</b>	<b>677 157</b>

The budgeted allocation for employee related costs for the 2014/15 financial year totals R209 million, which equals 34% of the total operating expenditure. Based on the multi-year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7.2% for the 2014/15 financial year and an additional 0.8% to cover the salary notches increases. An annual increase of 6.9% and 6.5% has been included in the two outer years of the MTREF.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget.

The provision of debt impairment was determined based on an annual collection rate of 80%. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years. The revaluation of infrastructure assets which is currently underway will result in a higher depreciation as a result of an expected increase in asset values.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). The municipality is currently servicing the DBSA loan.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved.



## 1.6 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

**Table 5 2014/15 Medium-term capital budget per vote**

Description	2011/12	2012/13	Current Year 2013/14		2014/15 MTREF		
	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2014/15	Budget Year 2015/16	Budget Year 2016/17
<b>Capital Expenditure By Vote</b>							
Vote 1 - 1100/00 Councillors	55			200	150		
Vote 2 - 1200/00 Municipal Manager	602				122		
Vote 3 - 1300/00 Corporate Services	8 259		600	600	3 812		
Vote 4 - 1400/00 Financial Services	525		640	440	818		
Vote 5 - 1500/00 Technical Services	37 735	61 297	94 786	102 186	85 079	83 706	95 159
Vote 6 - 1600/00 Community Services	4 433		9 528	9 528	11 419		
<b>Total Capital Expenditure</b>	<b>51 609</b>	<b>61 297</b>	<b>105 554</b>	<b>112 954</b>	<b>101 399</b>	<b>83 706</b>	<b>95 159</b>

For 2014/15 an amount of R101.3 million has been appropriated for the development of infrastructure. In the outer years this amount totals R83.7 million and R95.2 million respectively for each of the financial years. Electricity receives the highest allocation of R31.8 million in 2014/15 followed by roads and storm water infrastructure at R22 million and then water at R15 million.

Some of the salient projects to be undertaken over the medium-term includes, amongst others:

The Upgrading of Demane Street in Constantia	826 541
Construction of Vehicular Crossings in Maokeng	1 582 064
Lebina Street - Upgrading of gravel road and provision of proper stormwater drainage in Phomolong	2 492 454
Matlwangtlwang: Upgrading of bus route and accessroad	161 200
Morake Street - Upgrading of Gravel Road in Seisoville	3 420 572
Gelukwaarts 2897 - 1495 - Connector Road and Provision of Proper Storm Water (1.05km)	1 856 764
Matlwangtlwang: Upgrading of Ablution Facilities and Construction of Palisade Fence at the Sports Ground	47 866
Phomolong: Upgrading of Parking Area and Construction of Palisade Fence at Central Sports Terrain	1 373 685
Brentpark: Upgrading of Ablution Blocks and Rehabilitation of Football Field for Sports Stadium	1 787 339
Upgrading of Loubserpark Sports Facility	6 109 529
Maokeng - Upgrading of Storm Water System and Channelling of Vlei Areas (Phase 1)	1 237 644
Steynsrus: Upgrade Sewer Treatment works, Ponds and Filters - Phase 3	4 727 793
Maokeng: Upgrading of Sewer Pumpstations	382 803
Rammulotsi - Rehabilitation of existing landfill site and Construction and Fencing of New Landfill Site - Phase 2 (ID: 215370)	7 799 727
Bulk Water Infrastructure: Steynsrus	15 000 000
National Electrification Programmes	31 880 000